

STATE OF WASHINGTON



OFFICE OF
INSURANCE COMMISSIONER

MARKET CONDUCT EXAMINATION REPORT

AS OF DECEMBER, 1996

**ALEXANDER HAMILTON LIFE INSURANCE COMPANY OF
AMERICA**

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100 NORTH GREENE STREET

GREENSBORO, NORTH CAROLINA 27401

BY

THE OFFICE OF THE INSURANCE COMMISSIONER

STATE OF WASHINGTON

January 13, 2000

Honorable Deborah Senn
Washington Insurance Commissioner
Olympia, Washington 98504

Dear Commissioner Senn:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010, I have examined the corporate affairs and conduct of:

ALEXANDER HAMILTON LIFE INSURANCE COMPANY OF AMERICA

100 NORTH GREENE STREET

GREENSBORO, NORTH CAROLINA 27401

hereafter referred to as "the Company" or "Alexander Hamilton" or "AHL". This report is respectfully submitted for your review and action.

Scope of Examination

The examination was performed in compliance with the provisions of Washington insurance laws and regulations. The market conduct review followed the rules and procedures promulgated by the Office of the Insurance Commissioner (OIC) and the National Association of Insurance Commissioners (NAIC). The examination covered the period of January 1, 1992 through December 31, 1996. The examination was a target exam focused on the following areas of operations: Marketing and Sales Practices, Agent Activity, Complaints and Replacement Activity.

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EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with the Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. This examination was performed by Jeanne Mayer.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and this report is true and correct to the best of my knowledge and belief.

Pamela Martin

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

FOREWORD

Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

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TIME FRAME

The examination covered the company's operations from the period January 1, 1992 through December 31, 1996.

METHODOLOGY

Sampling Standards

In general, the sample for each test utilized in this examination falls within the following guidelines:

92 % Confidence Level

+/- 5 % Mathematical Tolerance

Regulatory Standards

Samples are tested for compliance with standards. The tests applied to sampled data will result in an error ratio, which determines whether a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as "met."

The standard in the area of agent licensing and appointment will not be met if any violations are noted. This will also apply when all records are examined, in lieu of a sample. For those standards which look for the existence of written procedures, or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes.

MATTERS EXAMINED

The focus of the examination was the life insurance and annuity business, which encompassed the following areas of operations:

- Marketing and sales practices
- Complaints
- Agents licensing

- Replacement activity

**HISTORY,
TERRITORY OF OPERATIONS,
MANAGEMENT**

Alexander Hamilton Life Insurance Company of America, domiciled in Michigan, commenced business in 1977. It is authorized to write insurance in 49 states, with the exception of New York, the District of Columbia, the U.S. Virgin Islands and Canada, and is primarily engaged in writing individual annuities and universal life policies. Alexander Hamilton Life Insurance Company of America is a wholly owned subsidiary of Jefferson Pilot Corporation. The company along with its subsidiary, First Alexander Hamilton Life Insurance Company was acquired on October 6, 1995 from a subsidiary of Household International Inc. The acquisition was completed through a merger into a wholly owned Michigan domiciled stock life insurance subsidiary of Jefferson Pilot Corporation, which was immediately renamed Alexander Hamilton Life Insurance Company of America. The acquisition included substantially all of the life and single premium deferred annuity business of Alexander Hamilton Life Insurance Company and First Alexander Hamilton Life.

Alexander Hamilton Life Insurance Company of America was admitted to the State of Washington on December 31, 1978. AHL is authorized to sell Life, Disability, Variable Life, and Variable Annuities. As of December 31, 1996, the total premium volume was \$5,049,767, and the company had 180 active agents in Washington.

The majority of the company's administrative records are located in Greensboro, NC. The location of records depends on the product issued and the original issuing company. Many products issued, as a result of the aforementioned acquisitions and mergers became JPL products by endorsement. Files with loans, withdrawals, and all 1035 exchanges are processed and located in Lexington, KY. Variable Annuity files are maintained in Concord, NH.

A Board of Directors governs the Company and the current Board members are:

Donna L. Drew

Kenneth C. Mlekush

Dennis R. Glass

David A. Stonecipher

MARKETING PLAN

Jefferson Pilot retained no AHL Marketing plans for the examination period. However, a summary of the marketing planning meeting conducted in September 1995 was found and reviewed by the examiner. The summary contained no pertinent information.

STANDARD (1)

Marketing plan contains no references to vanishing premium policies, replacement programs, exchange programs or other indicators or possible churning activities.

RESULTS: Undetermined due to lack of documentation.

AGENT COMMUNICATIONS/TRAINING MATERIALS

The examiner was provided with bulletins and publications that had been retained by Jefferson Pilot since the purchase of AHL. The bulletins cover the years 1995 and 1996; and publications since 1992. JPL was unable to obtain a syllabus of training materials. However, it appears that most of the on going training of agents was conducted through the dissemination of periodic bulletins and other publications. AHL recruited experienced agents. Training included instruction in illustration software, and new agents were provided with a new agent sales kit. The examiner was informed that the new agent kit contained the following items:

- A Company performance report for the prior year.
- Rating analysis
- Audio cassettes – sales tools
- Plain talk ideas and strategies brochures
- Attorney action plan brochure for estate planning
- Business Insurance planning brochure
- Family business brochures-Consumer Guide and Seminar tools
- Deferred Compensation Brochure

- Qualified Plan Brochure
- Available product specific brochures

Based on the information the examiner was provided, no evidence of any encouragement to replace internal or external policies was noted.

STANDARD (2)

Agent communications do not encourage replacement of existing internal or external policies, special funding programs, or other indicators of churning activity.

RESULTS: The company did meet this standard.

AGENT PRODUCED MATERIAL

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No documentation regarding AHL's procedures pertaining to agent produced training materials in use prior to Jefferson Pilot Life's acquisition of AHL were submitted for review. However, since October 1995 AHL has followed Jefferson Pilot procedures wherein agents are authorized to use only company approved advertising and sales material with respect to individual products. However, they are encouraged and allowed to produce their own advertising and sales material upon approval in writing from the Marketing Communications Manager. The company has an Advertising and Marketing Compliance Guidelines manual. The manual clearly defines advertising. It also contains sections pertinent to the type of training materials that may be used to train and hire new agents. Agents are instructed to submit all advertising and sales material that they produce to the Marketing Communications Manager. The information is logged into a tracking system and monitored.

STANDARD (3)

All agent or outside produced training materials are controlled by the company and the Company actively audits use of these materials.

RESULTS: Unable to determine due to lack of documentation prior to October 1995. The standard is met as of October 1995.

ADVERTISING MATERIAL

The Company's advertising file was reviewed in accordance with WAC 284-33-090. The company provided randomly selected samples from their advertising catalog file for review. Based upon examination of those documents it appears that the advertising files contained copies of all advertising materials as statutorily defined, including copies of agent created advertising material.

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STANDARD (14)

The advertising file contains copies of all advertising materials as statutorily defined; including copies of agent created advertising material.

WAC 284-23-020 and WAC 284-23-090

RESULTS: The company did meet this standard.

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STANDARD (15)

Advertising materials comply with Washington advertising regulations.

WAC 284-23-010 THROUGH WAC 284-23-080

RESULTS: The company did meet this standard.

AUDITS OF AGENT ACTIVITIES

JPL retained no information regarding AHL's audits of agent's activities prior to October 1995. There were no procedures presented for examination that outlined agency audits, including appointment activity, replacement processing or review of agency produced advertising material.

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STANDARD (4)

Company conducts regular audits of agent activities through regular branch or agency office audits and visits.

RESULTS: The company did not meet this standard.

AGENT CONTRACTS AND COMMISSION SCHEDULES

The contracts were reviewed and were found to contain typical agent contract language outlining the agent's scope of authority to act on behalf of the Company and commission schedules for business written. Neither the agent's contracts nor their commission schedules contain deceptive language or incentives that would encourage internal replacements.

STANDARD (6)

Agent contracts and commission schedules contain language that does not encourage internal replacements.

RESULTS: The company did meet this standard.

COMPLAINT HANDLING PROCEDURES

The Company has complaint handling procedures and a company complaint log. The legal activities department has overall responsibility for ensuring that all customer and regulator complaints are properly recorded and resolved. The company gives this area a high priority and ensures that each complaint is handled in an expeditious manner.

The Company uses a Complaint Control form for tracking and monitoring purposes. The Market Conduct Compliance Auditor advised the examiner that there are no formal procedures for reporting complaint trends to management.

The examiner reviewed all Washington complaints received by the company during the exam period. The total number of complaints by year were as follows:

1992	1993	1994	1995	1996
1	8	3	3	5

All complaints were handled in a timely manner. There was no evidence of unfair treatment of policyholders or claimants, or any pattern of activity, which would indicate an unfair trade practice.

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STANDARD (7)

The company has and follows written complaint handling procedures.

RESULTS: The company did meet this standard.

STANDARD (8)

The company monitors complaint records for trends, and has a formal procedure for reporting trends to management.

RESULTS: The company did not meet this standard.

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STANDARD (9)

Company responds to the Office of the Insurance Commissioner complaints within 15 business days and shows good faith in resolving complaint within 15 business days, as required by WAC 284-30-650.

RESULTS: The company did meet this standard.

DISCIPLINARY PROCEDURES

There were no written procedures presented which outlined AHL's agent disciplinary procedures prior to acquisition by JPL.

However, since the acquisition the examiner was informed that the following procedures are also the current procedures used by Alexander Hamilton. The company has written disciplinary procedures for agents suspected of wrongdoing. The information is reported to the Legal or Internal Auditing Departments. The Marketing Department is subsequently notified of an investigation. If the investigation discloses wrongdoing, disciplinary action is generally applied depending on the severity of the circumstances.

The Legal department is ultimately responsible for weighing each case on its own merits. The following disciplinary actions are applied:

- Oral reprimand
- Written reprimand
- Loss of recruiting privileges for a period of time
- No business accepted for a period time
- Termination.

STANDARD (10)

The company has and follows written procedures for disciplining agents and that actions are documented.

RESULTS: Unable to determine due to lack of documentation prior to October 1995. The Company met this standard as of October 1995.

IN FORCE POLICY REVIEW

In order to determine compliance with Washington Replacement Regulations (WAC 284-23-400 through WAC 284-23-485) a review of inforce policy records was done as part of the examination. There were two primary objectives to this section of the examination:

Review records to determine the extent of replacement activity, both internal and external, associated with a policy issued during the examination period.

Review records to determine the extent of existing policies financing new policies issued during the examination period. This financing could be accomplished through policy loans on existing policies, surrender of existing policies, exercising other non-forfeiture options on existing policies or partial surrenders of existing policies.

To accomplish this review, the examiner requested that the Company provide a database of files broken down into the following categories:

Policies issued in the State of Washington during the examination period.

Policies issued during the exam period where there was an existing policy at the start of the examination.

Policies issued during the exam period where existing policies have loans against them.

Policies issued during the examination period that had an existing policy surrendered during the exam period.

Policies issued during the examination period where the dividends from the existing policy were used to pay premiums on the new policy.

Policies issued during the examination period where paid up additions were surrendered on the existing policy.

Policies issued during the examination period where a Non-Forfeiture Option (NFO) was exercised on the existing policy.

There were 5,032 policies issued in Washington during the examination period of January 1, 1992 through December 31, 1996.

Policies Issued in the State of Washington during the Examination Period

Population	Sample Size	Number of Exceptions	Percentage to Sample
5,032	200	20	10%

From a population of 5,032 policy files, a systematically selected sample of two hundred (200) files were reviewed. The sample yielded twenty (20) files with multiple exceptions.

- Two (2) files lacked answers to the replacement question as required by WAC 284-23-440 and WAC 284-23-450(2). *See appendix 2*
- Fourteen (14) files contained no notification to the existing company as required by WAC 284-23-455(2)(b). *See appendix 1*
- Four (4) files lacked completion of "Important Notice Regarding Replacement of Insurance" as required by WAC 284-23-455(2)(a). *See appendix 3*

New Policies with Policy Loans on Existing Policies

Population	Sample Size	Number of Exceptions	Percentage to Sample
6	6	0	n/a

From a population of 6 policy files, all six (6) were reviewed. The review yielded no exceptions.

New Policies with Surrender of Existing Policies

Population	Sample Size	Number of Exceptions	Percentage to Sample
41	41	0	0

From a population of 41 policy files, all forty-one (41) files were reviewed. The review yielded no exceptions.

Dividends From Existing Policy Used To Pay Premium On New Policy

Population	Sample Size	Number of Exceptions	Percentage to Sample
0	0	0	0

AHL reported no files in this category.

Non-Forfeiture Option Exercised on Existing Policy

Population	Sample Size	Number of Exceptions	Percentage to Sample
0	0	0	0

AHL reported no files in this category.

REPLACEMENT ACTIVITY

The Office of the Insurance Commissioner is charged with the responsibility and enforcement of WAC 284-23-400. The purpose of this regulation is:

1. To regulate the activities of insurers and agents and brokers with respect to the replacement of existing life insurance and annuities;
2. To protect the interest of Life insurance and annuity purchasers by establishing minimum standards of conduct to be observed in replacement transactions by:

- a. Assuring that the purchaser receives information with which a decision can be made in his or her own best interest;
- b. Reducing the opportunity for misrepresentation and incomplete disclosures; and
- c. Establishing penalties for failure to comply with the requirements or this regulation.

AHL has documented replacement procedures that were reviewed for accuracy, adherence to Company guidelines, and compliance with Washington statutes and rules. The company has written replacement procedures that are consistent with Washington replacement regulations, however, the company did not consistently adhere to these procedures.

The company was asked to produce replacement logs for both internal and external policy replacements. The examiner was informed that AHL did not maintain an internal replacement log. AHL did maintain an external replacement log. However, the log did not contain the replacing agent's name, so it could not be cross-indexed. Without this information, the company lacked the tools necessary to monitor agent replacement activity, and to identify excessive replacements by individual agents.

The company is in violation of WAC 284-23-455(3), which requires that the replacing insurer shall maintain evidence of the "Notice Regarding Replacement," the policy summary, the contract summary and any ledger statements used, and a replacement register, cross indexed, by replacing agent and existing insurer to be replaced.

STANDARD (11)

Replacement procedures are in writing and are consistent with the Washington replacement regulations, WAC 284-23-400 THROUGH WAC 284-23-499.

RESULTS: The company did not meet this standard.

STANDARD (12)

Number of replacements for any one agent in any calendar year should not be significant (>1 per month, combined internal and external replacements).

RESULTS: Unable to determine due to lack of documentation.

STANDARD (13)

The company has identified patterns of replacement by individual agents such as moving policies in and out of the company at regular intervals, replacement of large blocks of business, moving funds from one policy to another.

RESULTS: The company did not meet this standard.

SUBSEQUENT EVENT NOTE: The majority of violations of the replacement regulations occurred prior to the acquisition of AHL by Jefferson Pilot Corporation in October, 1995. After the acquisition, the Jefferson Pilot written replacement procedures, that are consistent with Washington replacement procedures, were implemented.

AGENT LICENSING AND APPOINTMENTS

AHL has documented licensing and appointment procedures that were reviewed for accuracy, adherence to Company guidelines, and compliance with Washington statutes and rules. However, it appears that the company did not consistently adhere to these written procedures.

A review of 5,032 policy files was performed. Agent appointments were compared against policy issue dates and application dates to determine if the agent was licensed and properly appointed prior to soliciting business. It was determined that five (5) agents for a total of seven (7) policies were not licensed in Washington. Five (5) agents, for fourteen (14) policies were not appointed with the company at the time of solicitation. *Appendix 4* contains a list of agents not licensed with the State of Washington and *Appendix 5* contains a list of agents not appointed with AHL at the time the application was taken.

Population	Sample Size	Number of Exceptions	Percentage to Sample
5,032	5,032	10 agents/21 policies	0% Tolerance

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STANDARD (16)

Agents representing the company have been licensed and appointed prior to soliciting applications on behalf of the company according to RCW 48.17.010, and RCW 48.17.060.

RESULTS: The Company did not meet this standard.

INSTRUCTIONS

1. The company is instructed to send to each existing insurer a timely written communication advising of the replacement or proposed replacement. This written communication shall be in accordance with WAC 284-23-455(2)(b) and shall be retained in the policy files. *(See appendix 1).*
2. The company is instructed to require a statement signed by the agent or broker as to whether he or she knows replacement is or may be involved in a transaction. The company is instructed to obtain a proper statement for each application as required by WAC 284-23-455(1). *(See appendix 2).*
3. The company is instructed to review each application for accuracy and completion of each question pertaining to replacement in accordance with WAC 284-23-440. *(See appendix 3).*
4. The company is instructed to obtain a copy of the notice required by WAC 284-23-455 (2)(a) from the agent for every replacement and retain it in their files. *(See appendix 3).*
5. The company is instructed to comply with RCW 48.17.160(1) and (2) and ensure that all agents and brokers are properly licensed and appointed in the state prior to soliciting on behalf of the Company. *(See appendix 4 and appendix 5).*
6. The company is instructed to comply with RCW 48.17.455(3), which requires that the replacing insurer maintain for three years evidence of the "Notice Regarding Replacement," the policy summary, the contract summary and any ledger statements used, and a replacement register, cross indexed by replacing agent and existing insurer. (See page 15)

RECOMMENDATIONS

1. It is recommended that company personal and producers receive additional training regarding:
 - Which cases require replacement forms,
 - The importance of completion in all applicable sections of the replacement forms.
 - Required timeframes for notification to replaced insurers.

APPENDIX 1

REPLACEMENT REQUIREMENTS

VIOLATION OF WAC-284-23-455 (2)(b)

POLICY NUMBER	DATE OF ISSUE	REPLACEMENT NOTIFICATION TO EXISTING COMPANY
0008437345	10/8/92	NO NOTIFICATION TO EXISTING CO. NO REPLACEMENT FORMS
0008368773	6/17/92	NO NOTIFICATION TO EXISTING CO
0008567532	7/6/93	NO NOTIFICATION TO EXISTING CO.
0008580700	6/2/93	NO NOTIFICATION TO EXISTING CO
0008599597	8/7/93	NO NOTIFICATION TO EXISTING CO
0008636078	7/16/93	NO NOTIFICATION TO EXISTING CO.
0008640776	8/19/93	NO NOTIFICATION TO EXISTING CO.
0008665968	9/2/93	NO NOTIFICATION TO EXISTING CO.
0008683610	10/1/93	NO NOTIFICATION TO EXISTING CO.
0008829759	7/15/94	NO NOTIFICATION TO EXISTING CO.
0010078912	8/28/95	NO NOTIFICATION TO EXISTING CO
0010102176	10/1/95	NO NOTIFICATION TO EXISTING CO. NO REPLACEMENT FORMS
0010122871	1/6/96	NO NOTIFICATION TO EXISTING CO. NO REPLACEMENT FORMS
7500040071	4/11/95	NO NOTIFICATION TO EXISTING CO. NO REPLACEMENT FORMS

APPENDIX 2

INCOMPLETE REPLACEMENT REQUIREMENTS

VIOLATION OF WAC 284-23-440

VIOLATION OF RCW 284-23-450(2)

POLICY	DATE OF ISSUE	DESCRIPTION
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NUMBER		
0007376504	5/2/94	REPLACEMENT QUESTION NOT ANSWERED
0010012981	6/8/95	REPLACEMENT QUESTIONS NOT ANSWERED

APPENDIX 3

IMPORTANT NOTICE REGARDING REPLACEMENT OF INSURANCE

VIOLATION OF WAC 284-23-455(2)(a)

POLICY NUMBER	DATE OF ISSUE	DESCRIPTION
0008437345	10/8/92	NO REPLACEMENT FORMS
0010102176	10/1/95	NO REPLACEMENT FORMS
0010122871	1/6/96	NO REPLACEMENT FORMS
7500040071	4/11/95	NO REPLACEMENT FORMS

APPENDIX 4

AGENTS NOT LICENSED IN WASHINGTON

VIOLATION OF RCW 48.17.060(1)(2)

POLICY NUMBER	DATE OF ISSUE	AGENT
10119790	1/18/96	ADVANTAGE INS. NE(Arnold Poutala)
10120080	2/24/96	ADVANTAGE INS. NE (Arnold Poutala)
7151143	1/13/92	BENNETT ,D
8368773	6/17/92	LYON, B
8505277	1/9/93	WARTENBEE
8395416	7/7/92	WEINSTEIN
8908230	12/28/94	WEINSTEIN

APPENDIX 5

AGENTS LICENSED BUT NOT APPOINTED**VIOLATION OF RCW 48.17.160**

POLICY NUMBER	DATE APP SIGNED	DATE OF APPOINTMENT	AGENT NAME
0010118856	12/11/95	12/19/95	ALLEN CHAPMAN
0008599597	6/7/93	6/14/93	SUSAN J. TEGNER
0010439425	9/12/96	NONE	RICHARD HULTQUIST
	ISSUE DATE	APPOINTMENT EXPIRED	
8511465	2/17/93	12/31/92	PAUL R. RIED
8522784	3/3/93	12/31/92	PAUL R. RIED
8522797	3/3/93	12/31/92	PAUL R. RIED
8845762	9/18/94	12/31/92	PAUL R. RIED
8845759	10/10/94	12/31/92	PAUL R. RIED
8946302	12/28/94	12/31/92	PAUL R. RIED
8914761	1/9/95	12/31/92	PAUL R. RIED
8949228	8/28/95	12/31/94	STEPHEN D. WHIPPLE
10018121	10/25/95	12/31/94	STEPHEN D. WHIPPLE
10018134	10/25/95	12/31/94	STEPHEN D. WHIPPLE
10029013	10/25/95	12/31/94	STEPHEN D. WHIPPLE